

Message Text

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GREENBACK

PASS TREASURY FOR COOPER

E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: OECD DOCUMENT FOR USE OF NEW AD HOC WORKING
GROUP ON SOLIDARITY FUND

REF: (A) OECD PARIS 1878; (B) WIDMAN/LEDDY-KORP
TELECON JAN 21

1. SUMMARY. OECD SECRETARIAT HAS ISSUED DOCUMENT FOR
USE OF NEW AD HOC WORKING GROUP ON SOLIDARITY FUND,
AT ITS FIRST MEETING BEGINNING ON JANUARY 30. THIS
MESSAGE TRANSMITS PARTIAL TEXT TO SUPPLEMENT PORTIONS
WHICH WASHINGTON ALREADY HAS. END SUMMARY.

2. OECD SECRETARIAT HAS ISSUED NOTE (DESIGNATED
AD HOC C/WP(75)2, DATED JANUARY 22, 1975) FOR USE AT
FORTHCOMING MEETING OF NEW WORKING GROUP ON
SOLIDARITY FUND. DETAILS ON MEETING CALLED TO BEGIN
ON JANUARY 30 TRANSMITTED BY SEPTTEL.

3. COVERING NOTE TO NEW DOCUMENT AND FIRST PART EN-
TITLED "DRAFT OUTLINE OF AN AGREEMENT ESTABLISHING A
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SOLIDARITY FUND" REMAINS AS IN EARLY DRAFT LEFT IN

WASHINGTON BY SECRETARIAT WITH CHANGES CONVEYED BY
REF B. THIS FIRST PART FOLLOWED BY APPENDIX TO THE
OUTLINE" ENTITLED "ROLE OF THE BANK FOR INTERNATIONAL
SETTLEMENTS" WHICH IS SAME AS THAT ATTACHED TO G-10
DOCUMENT X/DEP/WG REC/9.

4. PART TWO OF NEW DOCUMENT CONTAINS TEXT TRANSMITTED
BELOW. ANNEX WHICH COMES AFTER PART TWO CONSISTS OF
SAME FOUR TABLES THAT APPEAR IN X/DEP/WG REC/9.

BEGIN TEXT

PART TWO
COMMENTARY ON THE DRAFT OUTLINE

AIMS AND ESSENTIAL FEATURES (PARAS L-2/FOOTNOTE: PARA-
GRAPHS MENTIONED REFER TO THE OUTLINE/)

1. IT IS AGREED THAT THE AGREEMENT SHOULD SERVE
ESSENTIALLY AS A "SAFETY NET" AND THAT, IF ALL GOES
WELL, IT MAY NOT HAVE TO BE USED ON ANY SIGNIFICANT
SCALE. IN KEEPING WITH THIS IDEA, A PARTICIPANT
SHOULD NOT NORMALLY REQUEST ASSISTANCE UNDER THESE
ARRANGEMENTS EXCEPT AS A LAST RESORT AFTER IT HAS MADE
THE FULLEST APPROPRIATE USE OF ITS RESERVES AND OF
OTHER SOURCES OF FINANCE.

MEMBERSHIP (PARA 3)

2. IT IS AGREED THAT MEMBERSHIP SHOULD BE OPEN TO ALL

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MEMBER COUNTRIES OF OECD AND THAT, IF THE PRINCIPLE OF THE AGREEMENT IS ACCEPTED, IT IS IMPORTANT THAT ALL THE MAJOR OECD COUNTRIES SHOULD DECIDE TO BE PARTIES TO IT.

TOTAL OF QUOTAS (PARA 4)

3. IT IS AGREED THAT THE TOTAL OF THE QUOTAS SHOULD BE APPROXIMATELY \$25 BILLION (OR APPROXIMATELY SDR 20 BILLION), AND THAT THE QUOTAS SHOULD BE DENOMINATED IN SDRS.

4. IT SHOULD BE NOTED THAT, IF BORROWING LIMITS ARE SET EQUAL TO LENDING LIMITS, QUOTAS TOTALLING \$25 BILLION WOULD ALLOW A MAXIMUM OF \$12.5 BILLION OF LOANS. EVEN WITH THE PROVISIONS PERMITTING RELAXATION OF THE BORROWING LIMITS SET OUT IN PARAGRAPH 11(A), MAXIMUM USE OF THE FUND WOULD BE UNLIKELY TO GO MUCH BEYOND 50 PER CENT OF THE TOTAL OF QUOTAS BEFORE RUNNING INTO LIMITS ON THE LENDING SIDE. IN THE CASE OF A SCHEME BASED ON BORROWING IN CAPITAL MARKETS, BACKED BY MULTILATERAL GUARANTEES, THE NEED TO PROVIDE SOMETHING LIKE 200 PER CENT COVER TO DEAL WITH THE POSSIBILITY OF DEFAULT BY A GUARANTOR WOULD ALSO REDUCE THE EFFECTIVE SIZE OF THE SOLIDARITY FUND TO AROUND 50 PER CENT OF THE TOTAL OF QUOTAS.

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CENT OR LESS OF THE TOTAL OF QUOTAS.

DISTRIBUTION OF QUOTAS (PARA 6)

5. IT IS BROADLY AGREED THAT THE DISTRIBUTION OF QUOTAS SHOULD BE BASED ON A FORMULA WHICH WILL GIVE ABOUT EQUAL WEIGHT TO GNP AND FOREIGN TRADE, BUT WHICH WILL AVOID PRODUCING TOO HIGH A QUOTA IN THE CASE OF SOME SMALLER COUNTRIES WITH A PARTICULARLY LARGE VOLUME OF FOREIGN TRADE RELATIVE TO GNP.

6. THE ANNEX TO THIS COMMENTARY SETS OUT SOME RELEVANT STATISTICS. THE SECRETARIAT IS PREPARING A FURTHER NOTE ON THE QUESTION OF THE DISTRIBUTION OF QUOTAS, TAKING INTO ACCOUNT THE DISCUSSIONS IN WASHINGTON.

CONDITIONS FOR BORROWING (PARAS 7-9)

7. IT IS AGREED THAT IT WOULD NOT BE PRACTICAL OR DESIRABLE TO SPECIFY IN ADVANCE AND IN GREAT DETAIL THE CONDITIONS GOVERNING ELIGIBILITY FOR BORROWING. APPROVAL OF A LOAN WILL BE SUBJECT TO THE BORROWING COUNTRY'S COMPLIANCE WITH CERTAIN BROAD REQUIREMENTS SET OUT IN PARAGRAPHS 1 AND 7 OF THE OUTLINE: THAT IT IS AVOIDING DISRUPTIVE BALANCE-OF-PAYMENTS ADJUSTMENT POLICIES; THAT IT IS FOLLOWING APPROPRIATE GENERAL ECONOMIC POLICIES, INCLUDING CO-OPERATIVE ENERGY POLICIES; AND THAT IT HAS MADE THE FULLEST APPROPRIATE USE OF ITS RESERVES AND OF ALTERNATIVE SOURCES OF FINANCE. THE BORROWING COUNTRY WILL HAVE TO SHOW THAT IT IS ENCOUNTERING SERIOUS EXTERNAL FINANCIAL DIFFICULTIES AND THE GOVERNING COMMITTEE WILL ATTACH POLICY CONDITIONS CONCERNING THE MEASURES NEEDED TO REDRESS THE BORROWING COUNTRY'S EXTERNAL FINANCIAL SITUATION OVER AN APPROPRIATE PERIOD.

BORROWING LIMITS AND APPROVAL OF LOANS (PARAS 10 AND 11)

8. IT IS AGREED THAT THE APPROVAL OF A LOAN SHOULD REQUIRE A TWO-THIRDS MAJORITY IF THE LOAN IS UP TO THE QUOTA, A "VERY STRONG" MAJORITY IF THE LOAN IS BETWEEN LIMITED OFFICIAL USE

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100 AND 200 OF THE QUOTA, AND BEYOND THAT SHOULD REQUIRE UNANIMITY; THESE VOTING REQUIREMENTS APPLYING NOT ONLY WITH RESPECT TO ALL PARTICIPANTS IN THE AGREEMENT, OTHER THAN THE BORROWER, BUT ALSO WITH RESPECT TO THE CONTRIBUTING PARTICIPANTS. THE PRECISE PERCENTAGE OF THE WEIGHTED VOTES REQUIRED FOR LOANS BETWEEN 100 AND 200 OF THE QUOTA REMAINS TO BE FIXED, PRESUMABLY IN THE RANGE FROM 75 TO 90. ONE VIEW EXPRESSED IS THAT IT SHOULD BE 90.

9. IT IS AGREED THAT THE DECISION COVERING THE GRANTING OF THE LOAN AND ITS TERMS AND CONDITIONS SHOULD ALSO COVER THE QUESTION WHETHER A COUNTRY SHOULD NOT BE REQUIRED TO MAKE A DIRECT CONTRIBUTION TO THE LOAN IN QUESTION ("OPTING OUT"). THE REQUIRED MAJORITY FOR THIS PART OF THE DECISION IS TWO-THIRDS OF THE WEIGHTED VOTES, WHATEVER THE AMOUNT OF THE LOAN. THE MINISTERIAL

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COMMUNIQUE SPECIFIES THAT THIS MAJORITY REQUIREMENT SHOULD APPLY WITH RESPECT TO THE PARTICIPANTS OTHER THAN THE BORROWER. THE QUESTION ARISES WHETHER THE COUNTRY WHICH REQUESTS TO BE DISPENSED FROM CONTRIBUTING SHOULD ALSO BE EXCLUDED FOR THE PURPOSES OF CALCULATING THIS MAJORITY - HENCE THE SQUARE BRACKETS IN PARAGRAPH 11(B) OF THE OUTLINE.

ADVANCE REPAYMENT OF LOANS (PARA L3)

10. IT IS AGREED THAT A COUNTRY MAY VOLUNTARILY MAKE REPAYMENTS OF A LOAN RECEIVED FROM THE SOLIDARITY FUND. A BORROWER MAY BE REQUIRED TO MAKE ADVANCE REPAYMENT IF ITS SITUATION HAS IMPROVED SUBSTANTIALY SINCE IT WAS GRANTED THE LOAN AND IF A TWO-THIRDS MAJORITY SO DECIDES. ADVANCE REPAYMENT BY A BORROWER MAY ALSO BE REQUIRED FOR THE PURPOSE OF FINANCING A REPAYMENT TO A CREDITOR OF THE SOLIDARITY FUND WHICH WISHES TO MOBILIZE ITS CONTRIBUTION BECAUSE ITS SITUATION HAS SUBSTANTIALY DETERIORATED SINCE IT MADE THE CONTRIBUTION.

FINANCING LOANS UNDER THE SUPPORT ARRANGEMENT (PARA 15-17)

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11. DIRECT CONTRIBUTIONS: THE FOLLOWING ARGUMENTS HAVE BEEN PUT FORWARD IN FAVOUR OF THE METHOD OF DIRECT CONTRIBUTIONS TO THE SOLIDARITY FUND FOR THE FINANCING OF LOANS. THIS FORM OF FINANCE WOULD BE MORE CREDIBLE AND THE MOST CONSISTENT WITH THE IDEA OF MUTUAL SUPPORT IN THE FACE OF COMMON DIFFICULTIES. IT WOULD BE MORE SIMPLE TO OPERATE, PARTICULARLY WITH REGARD TO DECISIONS CONCERNING INTEREST RATES AND THE SHARING OF EXCHANGE RISKS. IT WOULD NOT REQUIRE RECOURSE TO PRIVATE MARKETS WHERE IT MIGHT BE DIFFICULT TO OBTAIN FUNDS QUICKLY ON A SUFFICIENT SCALE, AND IT WOULD ALSO AVOID VARIOUS WELL KNOWN DISADVANTAGES OF A GUARANTEE SYSTEM DISCUSSED BELOW.

12. THE MAJOR DISADVANTAGE SEEN IN FINANCING THROUGH DIRECT CONTRIBUTIONS IS THAT IT WOULD OBLIGE ALL COUNTRIES TO DRAW ON THEIR RESERVES AT A TIME WHEN SOME OF THEM, WHILE NOT ACTUALLY IN NEED OF A LOAN, MIGHT ONLY JUST BE MANAGING TO ATTRACT THE FUNDS NECESSARY TO KEEP THEIR EXTERNAL ACCOUNT IN BALANCE. SUCH COUNTRIES MIGHT FIND THEMSELVES PUSHED INTO THE POSITION OF HAVING TO REQUEST A LOAN FROM THE SCHEME; AND, IF GRANTED, THESE LOANS MIGHT CREATE SIMILAR DIFFICULTIES FOR OTHER CONTRIBUTING COUNTRIES, PROVOKING FURTHER REQUESTS FOR FULL LOANS AND THUS LEADING TO A FAR GREATER USE OF THE MECHANISM THAN WOULD BE COMPATIBLE WITH THE AIM OF MAKING IT A LAST RESORT SAFETY NET. IN MORE GENERAL TERMS, THIS MECHANISM WOULD BE CUMBERSOME IN CONDITIONS IN WHICH THE NEED WAS TO RECYCLE FUNDS FROM ONE OR A FEW COUNTRIES IN A STRONG EXTERNAL POSITION TO ONE OR MORE COUNTRIES IN NEED OF FINANCIAL ASSISTANCE.

13. BORROWING IN THE MARKETS BACKED BY MULTILATERAL GUARANTEES. THE MAIN ADVANTAGE SEEN FOR THE METHOD OF BORROWING FROM THE CAPITAL MARKETS BACKED BY MULTILATERAL GUARANTEES IS THAT IT WOULD AVOID THE DIFFICULTIES MENTIONED IN THE PRECEDING PARAGRAPH. THIS METHOD WOULD BE MORE CONSISTENT WITH THE IDEA OF A RECYCLING MECHANISM: THE FUNDS IN QUESTION ARE LIKELY TO BE FOUND SOMEWHERE IN THE MONEY OR CAPITAL MARKETS OF THE PARTICIPATING COUNTRIES AND IT WOULD BE LIMITED OFFICIAL USE

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BOTH LOGICAL AND FLEXIBLE TO TAP THEM IN THE MARKETS WHERE THEY ARE TO BE FOUND. IN SOME COUNTRIES IT MIGHT ALSO BE EASIER TO OBTAIN THE NECESSARY LEGISLATIVE APPROVAL FOR THIS TYPE OF SCHEME.

14. MULTILATERAL GUARANTEES ALSO HAVE VARIOUS DIS-
ADVANTAGES. FOR THE GUARANTEE TO BE CREDIBLE, EACH
PARTICIPANT'S CONTINGENT LIABILITIES HAVE SUBSTANTIALLY
TO EXCEED ITS QUOTA SHARE IN THE LOAN. THE INTEREST
RATE THAT HAS TO BE PAID MAY BE HIGHER THAN WOULD BE
THE CASE IF SOME COUNTRIES BORROWED IN THEIR OWN
NAME. MORE GENERALLY, WITH A GUARANTEE SYSTEM, THERE
MIGHT BE A SENSE IN WHICH THE PARTICIPANTS FELT THEY
WERE GETTING SOMETHING FOR NOTHING AND THEREFORE THAT
THE SCHEME WAS NOT ADMINISTERED WITH THE NECESSARY
DEGREE OF DISCIPLINE.

15. IN THE LIGHT OF THE ABOVE-MENTIONED CONSIDERATIONS

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LIMDIS GREENBACK

IT MIGHT BE DESIRABLE TO HAVE A FLEXIBLE ARRANGEMENT
WHICH LEFT OPEN THE CHOICE BETWEEN FINANCING THROUGH
DIRECT CONTRIBUTIONS OR THROUGH MARKET BORROWING.
THIS WOULD ENABLE THE FORM OF FINANCING TO BE ADAPTED
TO PREVAILING CIRCUMSTANCES. THERE MAY BE A SITUATION
IN WHICH THE OIL FUNDS ARE FLOWING MAINLY TO ONE OR
TWO COUNTRIES. OTHER FACTORS, SUCH AS RELATIVE
MONETARY CONDITIONS, WILL ALSO BE INFLUENCING THE FLOW
OF FUNDS BETWEEN PARTICIPATING COUNTRIES, WHOSE CURRENT
ACCOUNT POSITION WILL ALSO DIFFER. THE NET OUTCOME

OF THESE VARIOUS FACTORS MAY BE A SITUATION IN WHICH ONLY ONE OR TWO COUNTRIES ARE HAVING DIFFICULTY IN FINANCING THEIR EXTERNAL BALANCE WHILE THE OTHERS ARE ABLE TO OBTAIN ADEQUATE FINANCE ON REASONABLE TERMS; OR, ALTERNATIVELY, A SITUATION IN WHICH ONE OR TWO COUNTRIES FIND THEMSELVES IN AN EXTREMELY STRONG POSITION WHILE MOST OTHER COUNTRIES ARE EXPERIENCING DIFFICULTIES. IN THE FIRST CASE FINANCING THROUGH DIRECT CONTRIBUTIONS FROM MOST OF THE PARTICIPANTS WOULD BE THE MOST APPROPRIATE; IN THE SECOND CASE IT WOULD BE BETTER TO OBTAIN THE FUNDS FROM THE COUNTRIES IN A STRONG EXTERNAL POSITION THROUGH BORROWING IN THEIR CAPITAL MARKETS (OR, MORE INDIRECTLY, THROUGH BORROWING IN INTERNATIONAL MARKETS).

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16. SOME COUNTRIES CONSIDER THAT A FLEXIBLE SCHEME SHOULD NOT BE REGARDED SIMPLY AS A COMPROMISE BETWEEN A DIRECT CONTRIBUTION SCHEME AND A GUARANTEED BORROWING SCHEME. FIRST, IT CAN BE ADAPTED TO DEAL WITH THE TWO SITUATIONS JUST NOTED IN WHICH ONLY ONE OR TWO COUNTRIES ARE IN DIFFICULTY, OR, ALTERNATIVELY, IN WHICH ONE OR TWO COUNTRIES ARE IN AN EXCESSIVELY STRONG POSITION. SECOND, IT SEEMS TO BE BETTER FROM THE OPERATIONAL POINT OF VIEW. IF THE AGREEMENT IS TO SERVE AS AN EFFECTIVE SAFETY NET, IT MUST, IF NECESSARY, BE ABLE TO RAISE LARGE SUMS OF MONEY QUICKLY. IN PRACTICE, THESE CAN ONLY BE FINANCED IN THE SHORT RUN THROUGH DRAWING ON EXCHANGE RESERVES OR BORROWING FROM THE B.I.S. INITIALLY, THEREFORE, THE AGREEMENT, IF IT IS TO SERVE ITS PRIMARY PURPOSE, MAY INEVITABLY INVOLVE FINANCING MEDIUM TERM LOANS THROUGH WHAT ARE ESSENTIALLY SHORT TERM FUNDS. OVER TIME, HOWEVER, AND AS MARKET CONDITIONS EVOLVE, IT MAY BE DESIRABLE TO SHIFT THE FINANCING ON TO A LONGER TERM BASIS.

17. IN THE DISCUSSIONS IN WASHINGTON IT BECAME CLEAR THAT THERE WAS WIDESPREAD SUPPORT FOR A FLEXIBLE SCHEME WHICH WOULD LEAVE OPEN THE CHOICE BETWEEN FINANCING THROUGH DIRECT CONTRIBUTIONS AND FINANCING THROUGH MARKETS. THE MAIN DIFFICULTY WHICH REMAINS TO BE RESOLVED IS THAT OF AGREEING ON THE DECISION-MAKING PROCESS THROUGH WHICH A WORKABLE METHOD OF FINANCING CAN BE SELECTED ACCORDING TO THE CIRCUMSTANCES, WHICH AT THE SAME TIME LEAVES INDIVIDUAL COUNTRIES AS FREE AS POSSIBLE TO MAKE THEIR SHARE OF THE FINANCING AVAILABLE IN WAYS WHICH BEST SUITS THEIR FINANCIAL SITUATION AND THEIR DOMESTIC LEGAL REQUIREMENTS. THE FOLLOWING QUESTIONS ARISE IN THIS CONNECTION:

(A) SHOULD ONE METHOD OF FINANCING - DIRECT CONTRIBUTIONS OR GUARANTEED BORROWING - BE CONSIDERED THE BASIC OR NORMAL METHOD, THERE BEING RECOURSE TO THE OTHER ONE IN SPECIFIED CIRCUMSTANCES AND SUBJECT TO A STRONG MAJORITY VOTE?

(B) ON WHAT CONDITIONS WOULD INDIVIDUAL COUNTRIES BE LIMITED OFFICIAL USE

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PERMITTED TO CHOOSE A METHOD OF FINANCING DIFFERENT FROM THE ONE SELECTED BY A GENERAL DECISION?

(C) IF ONLY SOME COUNTRIES ENGAGED IN A JOINT BORROWING OPERATION WHILE OTHERS MADE DIRECT CONTRIBUTIONS, HOW WOULD THE SHARES IN THE DEFAULT RISKS BE CALCULATED AND ALLOWED FOR IN THE QUOTAS?

(D) WOULD THE CONTINGENT LIABILITIES INCURRED BY COUNTRIES WHICH PREFERRED TO GIVE GUARANTEES FOR BORROWING BY THE SOLIDARITY FUND BE REGARDED AS FALLING WITHIN OR OUTSIDE THEIR QUOTAS?

18. OTHER POINTS WHICH HAVE EMERGED IN THE DISCUSSIONS: DIRECT CONTRIBUTIONS:

(A) THE BIS CAN ENVISAGE ASSISTING, ON A BILATERAL BASIS, THE CENTRAL BANKS OF PARTICIPATING COUNTRIES TO

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FINANCE THEIR DIRECT CONTRIBUTIONS (SEE PARA 3 OF THE APPENDIX.) THIS SHOULD MAKE IT CONSIDERABLY EASIER TO OBTAIN DIRECT CONTRIBUTIONS FROM A LARGER NUMBER OF PARTICIPANTS. IT WOULD ALSO INTRODUCE AN ELEMENT OF FLEXIBILITY IN THAT FUNDS BORROWED BILATERALLY IN THIS WAY FROM THE BIS WOULD OTHERWISE BE INVESTED IN NATIONAL OR INTERNATIONAL MARKETS. MOREOVER, UNDER THESE ARRANGEMENTS COUNTRIES WHICH HAD INITIALLY MADE A DIRECT CONTRIBUTION OUT OF THEIR RESERVES WOULD, UNDER CERTAIN CIRCUMSTANCES, BE ABLE TO REFINANCE THIS CLAIM THROUGH THE BIS.

(B) IT IS AGREED THAT WHATEVER FROM THEY TAKE (WHICH COULD INCLUDE PROMISSORY NOTES), CONTRIBUTIONS SHOULD BE IMMEDIATELY CONVERTIBLE INTO OTHER CURRENCIES AT THE OPTION OF THE BORROWER.

19. BORROWING IN CAPITAL MARKETS BACKED BY THE GUARANTEES OF SOME OR ALL PARTICIPANTS:

(A) THE BIS WOULD BE PREPARED TO ASSIST IN ARRANGING BORROWING BY THE SOLIDARITY FUND IN THE CAPITAL MARKETS IN VARIOUS WAYS (SEE PARAS. 9-11 OF THE APPENDIX).

(B) THERE IS A WIDE MEASURE OF AGREEMENT THAT THE LIMITED OFFICIAL USE

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SOLIDARITY FUND SHOULD NOT TRY TO BORROW DIRECTLY FROM THE GOVERNMENTS OF THE OIL-PRODUCING COUNTRIES. AMONG OTHER THINGS, THIS WOULD COMPETE WITH EFFORTS TO RAISE FUNDS IN THIS WAY FOR THE IMF OIL FACILITY OR UNDER THE EEC BORROWING SCHEME. ON THE OTHER HAND, IT WAS AGREED THAT THERE COULD BE NO OBJECTION IF THE SOLIDARITY FUND ACCEPTED, BUT DID NOT SOLICIT, PLACEMENTS BY THE OIL-PRODUCING COUNTRIES; FOR EXAMPLE, IF THESE COUNTRIES WISH TO SUBSCRIBE TO ISSUES MADE BY THE SOLIDARITY FUND ON THE NATIONAL OR INTERNATIONAL CAPITAL MARKETS.

(C) WHEN THE SOLIDARITY FUND BORROWS FROM THE MARKET BACKED BY MULTILATERAL GUARANTEES THERE IS A NEED TO

PROVIDE COVER FOR THE CONTINGENT LIABILITIES IN THE CASE OF DEFAULT BY A GUARANTOR. GIVEN THAT NEED, AND THE NECESSITY OF ENSURING THAT PARTICIPANTS' LIABILITIES DO NOT EXCEED THEIR QUOTA LIMITS, THE AMOUNT THAT CAN BE BORROWED WILL HAVE TO BE LIMITED TO SOME FRACTION ONLY OF THE TOTAL NORMAL AMOUNT OF QUOTAS, RENDERING HEAVY USE OF THE SOLIDARITY FUND INCREASINGLY DIFFICULT.

(D) IT IS AGREED THAT THE MAXIMUM LIABILITY OF THE SOLIDARITY FUND UNDER GUARANTEES INCLUDES CAPITAL, INTEREST FOR ONE PERIOD AND ANNY PENALTY CHARGES OR OTHER COSTS INVOLVED IN EARLY REPAYMENT. IT WAS NOTED THAT GUARANTEES COULD BE EITHER TO THE SOLIDARITY FUND OR TO THE LENDER.

MOBILIZATION OF CONTRIBUTIONS (PARAS 21 AND 22)

20. IN ACCORDANCE WITH PARAGRAPH 21 OF THE OUTLINE, IF A CREDITOR'S SITUATION DETERIORATES, AND IT IS SO DECIDED BY A TWO-THIRDS MAJORITY, ITS CONTRIBUTION WILL BE REPAID TO IT. THE PROVISIONS OF PARAGRAPH 22 OF THE OUTLINE ARE DESIGNED TO INSURE THAT FINANCING FOR SUCH A REPAYMENT IS AVAILABLE IN ALL CIRCUMSTANCES. THESE PROVISIONS WERE INSERTED AT A FAIRLY LATE STAGE AND HAVE NOT BEEN EXTENSIVELY DISCUSSED. IT IS PERHAPS WORTH CONSIDERING WHETHER THE PROVISIONS OF PARAGRAPH LIMITED OFFICIAL USE

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22(A) OF THE OUTLINE - UNDER WHICH A FIRST CALL IS MADE ON COUNTRIES WHICH HAVE OPTED OUT FROM PREVIOUS CONTRIBUTIONS AND WHOSE SITUATION HAS IMPROVED SUBSTANTIALY - MIGHT NOT ALSO BE APPLIED WHEN THE SOLIDARITY FUND CALLS UP CONTRIBUTIONS TO FINANCE A LOAN, AND NOT JUST IN THE CASE OF MOBILIZATION OF A CONTRIBUTION.

21. SOME CONCERN HAS BEEN EXPRESSED THAT THE EASIER IT IS TO MOBILIZE CONTRIBUTIONS, EITHER BY RE-FINANCING THROUGH THE BIS OR UNDER THE PROVISIONS OF PARAGRAPH 21, THE MORE THEY WILL BE REGARDED AS RELATIVELY LIQUID ASSETS BY CONTRIBUTORS, AND THIS MIGHT IMPART SOME INFLATIONARY BIAS. VARIOUS ARGUMENTS HAVE BEEN PUT FORWARD AGAINST THIS VIEW. FIRST, LENDING BY THE SOLIDARITY FUND WILL BE CONDITIONAL AND ECONOMIC POLICY CONDITIONS WILL BE ATTACHED TO LOANS. SECOND, IT IS POSSIBLE THAT THE FINANCING OF LOANS MAY INDIRECTLY

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INVOLVE MOBILIZING FUNDS INVESTED AT SHORT TERM BY THE OIL PRODUCERS; BUT, IN PRACTICE, MUCH OF THIS MONEY CANNOT BE SPENT ON CURRENT GOODS AND SERVICES FOR SOME YEARS TO COME BECAUSE OF THE LOW ABSORPTIVE CAPACITY OF A NUMBER OF THE MORE IMPORTANT OIL-PRODUCING COUNTRIES. FINALLY, IT IS PRECISELY BECAUSE THERE COULD BE A TENDENCY TO DOUBLE-COUNT CLAIMS ON THE SOLIDARITY FUND AND RESOURCES MADE AVAILABLE BY IT THAT SOME COUNTRIES FAVOR A FLEXIBLE SCHEME UNDER WHICH IT WOULD BE POSSIBLE OVER TIME TO TRANSFORM THE INITIAL FINANCING INTO LONGER-TERM FORMS.

ACTION IN THE EVENT OF DELAYED REPAYMENT OR DEFAULT
(PARAS 23-24)

22. THE PROVISIONS OF PARAGRAPH 23 OF THE OUTLINE ARE EQUIVALENT TO THOSE OF A JOINT AND SEVERAL GUARANTEE, SUBJECT TO THE LIMIT OF PARTICIPANT'S QUOTAS.

23. ONE COUNTRY FEELS THAT THERE SHOULD BE PROVISIONS WHEREBY A GUARANTOR WHICH HAS TEMPORARY DIFFICULTIES IN FINDING THE FOREIGN EXCHANGE NEEDED TO MEET ITS GUARANTEE OBLIGATIONS MAY BE ABLE TO OBTAIN TEMPORARY FINANCING IN ORDER TO ENABLE IT TO AVOID BEING FORCED INTO DEFAULT. ALL THE OTHER COUNTRIES BELIEVE THAT
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ANY SUCH PROVISION WOULD BE CONTRARY TO THE SPIRIT OF THE AGREEMENT AND WOULD WEAKEN THE GUARANTEES. IF SUCH A PROVISION WERE INCLUDED ONE COUNTRY WOULD WANT TO CONSIDER THE DESIRABILITY OF LIMITING PARTICIPANTS' GUARANTEE OBLIGATIONS ON A LOAN BY LOAN BASIS.

CURRENCY DENOMINATION AND INTEREST RATES (PARA 25)

24. IT IS IMPRACTICAL TO LAY DOWN, IN ADVANCE, PRECISE TERMS CONCERNING CURRENCY DENOMINATION AND INTEREST RATES. THE GOVERNING COMMITTEE WILL DETERMINE THEM IN THE LIGHT OF CONDITIONS AT THE TIME. HOWEVER, THE MAIN CONSIDERATIONS TO BE TAKEN INTO ACCOUNT ARE INDICATED IN THE OUTLINE.

25. IF IT IS NOT POSSIBLE TO DENOMINATE BORROWING AND LENDING, FOR A PARTICULAR OPERATION, IN A SINGLE CURRENCY, OR UNIT OF ACCOUNT, THIS WILL GREATLY COMPLICATE THE OPERATIONS AND, IN PARTICULAR, MAKE IT DIFFICULT TO DETERMINE THE EQUIVALENT VALUES OF ITS ASSETS AND LIABILITIES.

26. THE INTEREST RATE PAID TO CONTRIBUTORS SHOULD BE AT LEAST AS HIGH AS THAT AT WHICH THEY CAN INVEST THEIR FOREIGN EXCHANGE RESERVES. A QUESTION WHICH HAS BEEN RAISED IN THIS CONNECTION IS WHETHER THE INTEREST RATE SHOULD NECESSARILY BE HIGH ENOUGH TO AVOID A NET COST TO CONTRIBUTORS WHICH BORROW TO FINANCE THEIR CONTRIBUTIONS, E.G. FROM THE BIS. AS NOTED IN THE OUTLINE, THE INTEREST RATE CHARGED TO A BORROWER SHOULD BE RELATED TO THE COST OF THE FINANCING OBTAINED BY THE SOLIDARITY FUND. THERE IS ALSO, HOWEVER, WIDESPREAD AGREEMENT THAT TO BE CONSISTENT WITH THE IDEA OF A "SAFETY NET" OF LAST RESORT THE RATE SHOULD NOT BE SIGNIFICANTLY LOWER THAN THE RATE AT WHICH A BORROWER WITH A "GOOD NAME" COULD BORROW IN THE MARKET. THIS WOULD NORMALLY MEAN THAT THERE WOULD BE SOME SPREAD IN FAVOR OF THE SOLIDARITY FUND.

INSTITUTIONAL ARRANGEMENTS AND DECISION-MAKING (PARAS 26-29)

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27. THERE IS A STRONGLY HELD VIEW THAT ANY NEW INSTI-

TUTIONAL ARRANGEMENTS SHOULD BE KEPT TO A MINIMUM.

28. IT IS AGREED THAT COUNTRIES' VOTES IN THE GOVERNING COMMITTEE WILL BE WEIGHTED ACCORDING TO THEIR QUOTAS. EXCEPT WHERE STRONGER MAJORITIES ARE SPECIFIED, ALL DECISIONS WILL REQUIRE A SIMPLE MAJORITY OF THE WEIGHTED VOTES CAST, DISREGARDING ABSTENTIONS.

29. IT IS AGREED THAT THE GOVERNING COMMITTEE WOULD NOT NORMALLY REQUIRE FORMAL OPINION FROM OTHER BODIES, BUT WOULD FORM ITS OWN JUDGMENT ON THE BASIS OF ITS KNOWLEDGE OF THE WORK OF OTHER BODIES INSIDE AND OUTSIDE THE OECD ON WHETHER THE BORROWER WAS FOLLOWING SATISFACTORY POLICIES IN THE SECTOR CONCERNED. IN THIS CONNECTION, APPROPRIATE ARRANGEMENTS WILL BE MADE FOR LIAISON WITH THE MANAGING DIRECTOR OF THE IMF, THE

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LIMDIS GREENBACK

BIS AND THE COMMISSION OF THE EEC INCLUDING INVITATIONS TO THEIR REPRESENTATIVES TO ATTEND MEETINGS.

30. IT IS AGREED THAT, IN ADDITION TO THE GOVERNING COMMITTEE, THERE SHOULD BE A SMALLER MANAGING BOARD COMPOSED OF FINANCIAL EXPERTS DESIGNATED BY THE PARTICIPANTS TO ASSIST THE SECRETARIAT IN PREPARING THE

WORK OF THE GOVERNING COMMITTEE.

THE ROLE OF THE BIS

31. AS ENVISAGED IN PARAGRAPHS 3-8 OF THE APPENDIX TO THE OUTLINE, IT IS PROPOSED THAT THE BIS COULD PLAY AN IMPORTANT ROLE IN ASSISTING PARTICIPANTS TO FINANCE THEIR DIRECT CONTRIBUTION TO THE SOLIDARITY FUND. FURTHER CONSIDERATION NEEDS TO BE GIVEN TO THE QUESTION OF THE FORM SUCH AN UNDERSTANDING SHOULD TAKE.

32. THE BIS HAS ALSO OFFERED TO ACT AS FINANCIAL AGENT FOR THE SOLIDARITY FUND. THE DETAILS OF ITS FUNCTIONS IN THIS RESPECT WILL NEED TO BE WORKED OUT.

LEGAL STATUS (PARA 30)

33. IN THE INTERESTS OF KEEPING THE AGREEMENT AS SIMPLE LIMITED OFFICIAL USE

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AS POSSIBLE, MANY MEMBERS WOULD PREFER THAT THE SUPPORT OPERATION DID NOT HAVE A SEPARATE LEGAL PERSONALITY, BUT THERE WERE DOUBTS AS TO WHETHER THIS COULD BE AVOIDED IF THE SOLIDARITY FUND IS GOING TO BORROW FROM THE MARKET; IN THIS CASE SOME NOMINAL CAPITAL WOULD ALSO BE REQUIRED.

ENTRY INTO FORCE AND PROVISIONAL APPLICATION (PARA 31)

34. AN AGREEMENT OF THIS KIND WILL REQUIRE LEGISLATIVE APPROVAL IN VIRTUALLY ALL PARTICIPATING COUNTRIES, AND THERE IS CONCERN THAT THIS MIGHT UNDULY DELAY THE IMPLEMENTATION OF THE ARRANGEMENTS. IT MIGHT BE POSSIBLE, HOWEVER, TO DRAW UP A PROTOCOL OF PROVISIONAL APPLICATION UNDER WHICH THE AGREEMENT COULD BEGIN TO OPERATE IMMEDIATELY, OR A FEW MONTHS LATER, POSSIBLY WITH ONLY PART OF ITS POTENTIAL CAPACITY.

35. AS INDICATED IN PARAGRAPH 5 OF THE MINISTERIAL COMMUNIQUE, IT WAS SUGGESTED IN WASHINGTON THAT, BEFORE THE SOLIDARITY FUND CAME FULLY INTO OPERATION, LOANS MIGHT BE FINANCED TEMPORARILY BY CREDIT ARRANGEMENTS THROUGH CENTRAL BANKS, ON THE UNDERSTANDING THAT SUCH FINANCING WOULD SUBSEQUENTLY BE REPLACED BY MEDIUM-TERM LOANS FROM THE SOLIDARITY FUND. ONE POSSIBILITY IS THAT, IN SUCH AN INTERIM PERIOD, COUNTRIES MIGHT BE ABLE TO BORROW FROM THE BIS, ON A SIMILAR UNDERSTANDING. IF SUCH INTERIM ARRANGEMENTS ARE ENVISAGED, IT IS FOR CONSIDERATION WHETHER SOME OF THE INSTITUTIONAL ARRANGEMENTS UNDER THE AGREEMENT MIGHT BE BROUGHT INTO

OPERATION DURING THE INTERIM PERIOD. FOR EXAMPLE,
THERE COULD BE AN ARRANGEMENT UNDER WHICH THE GOVERNING
COMMITTEE COULD APPROVE, BY A TWO-THIRDS MAJORITY,
SHORT-TERM LOANS WHICH WOULD BE FINANCED THROUGH CENTRAL
BANK SWAPS OR THROUGH THE BIS.

AMENDMENTS (PARA 32)

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LIMDIS GREENBACK

36. ONE COUNTRY CONSIDERS THAT IT SHOULD NOT BE
POSSIBLE TO INCREASE THE SIZE OF THE FUND, EVEN ON
THE BASIS OF A UNANIMOUS DECISION. THE OTHERS FEEL
THAT IT SHOULD BE POSSIBLE BOTH TO INCREASE THE SIZE
AND EXTEND THE DURATION OF THE FUND BY UNANIMOUS
AGREEMENT.

LIQUIDATION (PARA 33)

37. IT IS GENERALLY AGREED THAT THE PROVISIONS OF THE
AGREEMENT SHOULD REFLECT ITS TEMPORARY NATURE AND,
IN PARTICULAR, THAT THE POWER TO GRANT NEW LOANS
SHOULD LAPSE AUTOMATICALLY AFTER A FIXED PERIOD OF
TWO YEARS AS SET OUT IN PARAGRAPH 14 OF THE OUTLINE.
SOME COUNTRIES WOULD LIKE TO GO FURTHER AND LAY DOWN
THAT ALL PROVISIONS REQUIRING DISCRETIONARY DECISIONS

ON THE PART OF THE GOVERNING COMMITTEE SHOULD ALSO
LAPSE AT THE END OF THIS PERIOD. OTHER COUNTRIES
FEEL THIS IS IMPRACTICABLE; SOME, IN PARTICULAR,
CONSIDER THAT THE PROVISIONS FOR MOBILIZING CLAIMS
SHOULD CONTINUE IN FORCE UNTIL THE AGREEMENT IS
LIQUIDATED.

38. THE LIQUIDATION PROVISIONS ENVISAGED IN PARAGRAPH
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33 OF THE OUTLINE WOULD BE BASED ON THOSE USED IN THE
EPU. THEY DO NOT APPEAR TO POSE ANY PARTICULAR PROBLEM.

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